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SUBJECT: Mexico Economic Weekly - July 24

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Joe Salazar (salazarje3@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE:

11. (U) ECONOMY FALLS 9% DURING THE FIRST HALF OF 2009: During a ceremony to expand Volkswagen's plant in Puebla, President Calderon said that the economy has contracted by 9 percent during the first half of the year. While the official figures are not out yet, Calderon strongly argued however that his government has faced the crisis effectively and has reduced the overall negative impact of the global crisis. For example, thanks to his temporary employment program, formal employment has only dropped 3 percent this year. Calderon asserted that Mexico's automobile sector would trigger the global automobile industry's recovery since it offers the best production and investment conditions thanks to its competitive advantage in transportation, logistics and skilled labor. He reminded the attendees that his government has injected more than US\$3.7 billion into the sector and more than US\$2.2 billion in credit lines through development banks for the auto parts sector. (Mexico City)

12. (U) CONSUMER PRICES ROSE 0.2% IN JULY: The Bank of Mexico reported on July 23 that annual headline inflation totaled 5.54 percent during the first half of July. Inflation is maintaining a downward trend in line with most analysts' predictions. According to the central bank, year-end inflation will go down to between 4 and 4.5 percent, still 1.5 percent higher than its 3 percent target. The bank aims to meet its inflation target of 3 percent by the end of 2010. For most analysts, inflation has not dropped in Mexico as fast as other countries due to the existing rigidity in the

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administration and the setting of some prices, which prevents them from adjusting to market conditions. According to most analysts, the Bank of Mexico will be cautious by continuing to borrow at the current 4.5 percent interest rate for the remaining of 2009. (Mexico City)

13. (U) GOVERNMENT ANNOUNCES ANOTHER CUT TO THE BUDGET: Due to the crisis and the estimated fiscal shortage of US\$32.6 billion this year, the government announced yesterday a second cut of 50 billion pesos (US\$3.8 billion) to public spending. This is the second cut after Finance Secretary Carstens announced that the 2008 budget would be cut by 35 billion pesos (US\$2.6 billion) in May. Carstens asserted that social, health and security expenditures will not suffer from the cut and added that infrastructure projects would be marginally affected. The government will pass the razor to 78 percent of current spending and 22 percent on public investment. Carstens also stated that the government will propose a new tax reform which will be included in the economic package, to be submitted to the Congress on September 8. He pledged to maintain fiscal stability while continuing to stimulate the economy through public spending. Such spending would be through a fiscal reform that could include taxes to consumption and an amendment to the budget law to allow a slight increase of the fiscal deficit in difficult times. However, it would also included a pledge to eliminate these measures once the economy recovers. (Mexico City)

14. (U) MORE MEXICANS WORKING IN THE INFORMAL ECONOMY: Local press reports that as a result of the crisis and low salaries, many Mexicans have chosen to shift into the informal sector. Others have found a second job in the informal economy as a way to increase their income. In 2006, the income of "independent" (informal) workers represented 8.5 percent of the total labor force, but in 2008 the percentage grew to 12.8 percent. The payment for an informal job has risen 47.2 percent in two years, while the salary for formal sector jobs grew only slightly by 0.6 percent. Remittances, migration and government support are all insufficient to mitigate the decline in families' incomes. (Mexico City)

15. (U) IMSS RECORDS INCREASE IN EMPLOYMENT: The Instituto Mexicano del Seguro Social (IMSS) reported a nationwide upturn in formal sector jobs by over 19,200 in June. The state of Nuevo Leon created the greatest number of jobs followed by Jalisco, Guanajuato,

Quintana Roo, and Mexico. The highlight of the employment report was the 1,500 net job increase in the manufacturing sector in Nuevo Leon, while nationwide the sector lost 15,090 jobs. Nuevo Leon depends highly on U.S. exports and was one of the first states affected by the U.S. recession. The state now appears to be leading a recovery. However, despite these optimistic job statistics, an executive with Soriana, one of Mexico's largest grocery chains, told EconOff on July 15 that gross June sales in the company's regional grocery divisions dropped from 6 - 20 percent compared with the previous year. The official said that, in his opinion, he had not seen any indication that household consumption or the economic recession has bottomed out in Mexico. (Monterrey)

¶6. (U) NEW VENTURE CAPITAL FUND IN NUEVO LEON: The Instituto de Innovacion y Transferencia de Tecnologia (I2T2) of Nuevo Leon launched a new US\$8 million venture capital fund on July 15 for investments in technology startups. The fund, named the Nuevo Leon Innovation Fund, will invest up to 150,000 pesos in new companies. The startup funds will be a welcome source of capital for new companies since many other traditional sources of investment have dried up due to the economic crisis. The institute itself is a public-private partnership between the state science commission and Monterrey Tec University to promote economically viable research and development in the state. In addition to the new fund, I2T2 also announced 100 scholarships for local students to complete post graduate studies abroad in either science or technology-related fields. (Monterrey)

¶7. (U) TOURISM ON THE REBOUND IN CANCUN: More than forty days since the United States lifted its H1N1 travel warning to Mexico, Cancun's hotel occupancy is at 74 percent. However, this is still down 12 percent from last year. Cancun, one of Mexico's major tourist spots that represents a third of Mexico's total tourism revenue, was hit hard during the H1N1 outbreak when hotel occupancy dipped to less than 20 percent in early May and forced 15,000 of the city's 28,000 rooms to temporarily close at a loss of around US\$120 million. Key to Cancun's recovery, the Cancun hotel association representative told RSO, is the return of events such as the Ms. Espana competition last week. The representative also mentioned that hotels are seeing an increase of domestic tourists. (Merida)

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TRADE AND INVESTMENT:

¶8. (U) EXPORTS FALL AT A RECORD LEVEL: During the first half of the year, exports fell 30 percent in annual terms, a decline not seen since 1980. From January through June, the value of exports totaled US\$104.3 billion. The steep decline in total exports was largely due to the 56 percent drop in oil exports. Lower international prices and the continued decline in oil output had a negative impact on Mexican exports. The Mexican mix oil price averaged US\$47.3/bbl during the first half of the year and the volume of export was 1.2 million barrels per day, 15 percent lower than the previous year. Non-oil exports plummeted 24 percent, largely due to the decline in manufacturing exports, which fell 25.2 percent. Due to the crisis, the industrial sector also adjusted their imports. Thus, imports of intermediate and capital goods fell 30 percent and 21 percent, respectively. Notwithstanding, there was a more moderate decline of exports in June. Last month, total exports fell 27 percent compared to 33 percent the previous month. Banamex's analysts opined that it is still too soon to indicate a fast recovery, but at least the most critical phase in foreign trade seems to be over. (Mexico City)

¶9. (U) VW MEXICO TO INVEST US\$1 BILLION: On July 15, Volkswagen Mexico's Head of Corporate Communications announced the leading auto manufacturer will invest US\$1 billion into its plant in the central Mexican state of Puebla to build a new model. Volkswagen will likely begin production of this new model in March or April of 2010. Currently, the Puebla plant is Volkswagen's only North American plant, producing the Jetta and Bora models, and is the only plant that builds the popular new Beetles. The plant has suffered from rolling work stoppages to counter the economic crisis, and has sought government assistance from Mexico for its workers. (Mexico

City)

¶10. (SBU) DELPHI TO REORGANIZE, A POSITIVE EFFECT IN MATAMOROS? Auto parts supplier Delphi is the largest maquiladora in Matamoros, Tamaulipas. Delphi has a number of plants in the area that produce a variety of auto parts, including steering and radio components. Guillermo Rico Leal, Secretary of Economic Development for Matamoros spoke to local media about Delphi this week. He predicts Delphi's announced reorganization will quickly create a positive impact on the city's economy. Rico also stated there would be a total recovery of the city's economy by the end of 2010 or early 2011. (Note: EconOff and PD FSN note these statements seem overly optimistic. Media reports indicate General Motors (GM) is buying back ownership of four U.S. plants and the steering business. However, some Delphi plants in the area produce other items, such as radio components, that are not included in the sale to GM, and Delphi's plans for these plants are unknown. End Note.) (Matamoros)

¶11. (SBU) ADDITIONAL FDI IN TAMAULIPAS? Local media has reported 25 multinational businesses are planning to invest US\$698 million in the state of Tamaulipas. Nine of these businesses will be based in Matamoros. The planned investments should generate 5,600 jobs according to reports. EconOff spoke with Guillermo Rico Leal, Secretary of Economic Development for Matamoros last week regarding local economic developments. He mentioned there was a German company prospecting in the area of Matamoros, but he had no details. The Matamoros maquila association director, Roberto Mattus told EconOff recently a few European companies were looking into Matamoros, but none of them appeared to be serious at this time. He noted security is still a concern of most prospects. EconOff observes that local media has a tendency to report nearly verbatim press releases of local and state economic officials without asking critical questions and the reality of maquila developments are not as positive as media reports indicate. (Matamoros)

¶12. (SBU) LOCAL MAQUILA HR MANAGER KIDNAPPED, RETURNED: A personnel manager from Schumex, a local maquiladora specializing in battery chargers, was kidnapped on July 10. Notable about this kidnapping is where it took place: the parking lot of Schumex, at 5 p.m. on a Friday afternoon. The manager was returned before midnight the same night. The motive is unknown. A local contact shared this with EconOff this week. This incident was not covered by local media. (Matamoros)

ENERGY AND ENVIRONMENT:

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¶13. (U) WATER RATIONING BEGINS IN MEXICO CITY: The National Water Commission (Conagua) decreased water supply to the city's 23 million inhabitants yesterday by 10 percent. The rationing, a result of meager rainfall and a mere 40 percent capacity in three critical dams, will mean a 10 percent water reduction from Sunday to Thursday, 25 percent reduction on Fridays and 50 percent on Saturdays for Mexico City. Authorities estimate these indefinite measures will save the city 6.68 million cubic meters of water per month. Efren Villalón, president of the Mexico Valley Water Basin Organization, told the media that the cuts will be spread evenly across the city and should not noticeably affect residential areas. (Mexico City)

¶14. (U) JOHNSON CONTROLS SUSTAINABLE DEVELOPMENT PROJECT: On July 14, U.S. manufacturing company Johnson Controls, the City of Escobedo, and the environmental NGO Mundo Sustentable announced a new pilot reforestation project. In the partnership Johnson Controls will provide US\$200,000 in startup capital for greenhouses, Escobedo will donate land and equipment and Mundo Sustentable will supply the technical expertise needed to launch the project. Escobedo is a rapidly industrializing city and the lack of proper urban planning has blighted large parts of the city. In addition to replanting trees in large tracts of land, the project aims to provide trees in public areas to improve the quality of life. If the project is successful, the partnership plans to expand the

project to other outlying cities in the area. (Monterrey)

115. (U) UPCOMING ENERGY SEMINARS SPONSORED BY THE BRITISH EMBASSY:
The British Embassy kicked off a Climate Change Seminar Series in Monterrey on July 9. The one day seminar covered likely outcomes of a Post-Kyoto energy agreement, carbon trading and successful examples of private renewable energy projects. The British Embassy has been active in promoting renewable energy and combating climate change in Mexico. In Nuevo Leon alone, the U.K. embassy provided a US\$600,000 grant allowing the state to complete a greenhouse gas inventory in 2009. Additional seminars include: "Efficient Energy Technologies" in Mexico City on July 23 and in Veracruz on August 27; "Efficiencies in Carbon Markets" in Hermosillo on August 20; "Corporate Leadership in Climate Change" in Monterrey on September 29-30 and in Mexico City on October 1-2. (Monterrey)

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